546-D

GAO/B-FGMSD-80-71/Sept.

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

COMPLETED

ORIGINAL

The Navy's Computerized Pay System Is Unreliable And Inefficient--What Went Wrong?

During the past 12 years, the Navy has spent over $150 million to develop and operate a central automated military pay system for its military personnel. But the centralized system is so unreliable that, as a check, local disbursing officers calculate pay amounts manually. Each payday over 50 percent of the centrally computed pay amounts are changed to agree with amounts computed locally.

GAO approved the design of the system but now finds that the Navy did not implement the design effectively. Also, the Navy made changes to the system which it did not submit for approval as required and which, if submitted, GAO would not have approved.

The report makes several recommendations to the Secretary of Defense to improve the timeliness and accuracy of inputs to the automated system and to reduce the manual effort required to make the system work.

FGMSD-80-71
SEPTEMBER 26, 1980

8

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

THE NAVY'S COMPUTERIZED PAY SYSTEM IS UNRELIABLE AND INEFFICIENT--WHAT WENT WRONG?

D I G E S T

During the past 12 years the Navy has spent over $150 million to develop and operate a central automated military pay system in Cleveland, Ohio, that is largely unreliable and inefficient. GAO has approved the pay system design but the system is not working as designed because management did not implement it as designed.

Most of the pay computed by the system is based on erroneous and/or outdated information and, as a result, an expensive unapproved parallel manual system is being used to help assure that the Navy's 522,000 active duty members are paid correctly. Local disbursing officers at 400 locations compare all members' Leave and Earnings Statements provided by the central automated system with manual pay computations they are required to record in their local financial records. In over half of the cases the disbursing officers change (override) the centrally computed pay to the amount their records indicate. When approving the system design in September 1976, GAO recognized that disbursing officers may have to override the centrally computed amounts on an exception basis but the system was changed (without informing GAO) to, in effect, require that disbursing officers duplicate the functions of the central computer by calculating pay for each member. As required by Section 31, Title 2, GAO Policy and Procedures Manual for Guidance of Federal Agencies, important changes to approved systems are supposed to be submitted to GAO.

Although the extensive overrides made by the disbursing officers bring the pay closer to the amount due members, many errors still exist in members' pay records. A Naval Audit Service study in 1978 found that 42 percent of 291 selected pay accounts reviewed were inaccurate. Another study performed in 1978

by the internal auditors at Cleveland found that 52,200 accounts remained in an overpaid status for more than 90 days. Using scientific sampling techniques in selecting 96 pay records for review, GAO found, in 1979, that 34 of the accounts were in error in amounts ranging from $5 to over $1,800. (See p. 6.)

The major problems with the system stem from the lack of timely and accurate input data from field organizations to the central computer. For most input it takes an average of 23 days, including 12 days to prepare and 7 days in the mail, between the time a pay action occurs at the local installation and the date it is entered on the centralized records. The system design GAO approved required field activities to prepare input documents within 3 working days of the pay action. GAO recognized that there would be some delay in recording pay data centrally because of the large number of widely disbursed organizations submitting the data and because the data was to be mailed to the central site. Therefore, in approving the system, GAO cautioned the Navy to make sure pay data was submitted promptly.

Besides being late, the quality of the input is very poor. About 250 clerks (at a cost of $3.4 million annually) at the central site resolve an average of 38,000 errors the computer system rejects each month. This amounts to about 8 percent of pay change transactions submitted each month. And in 17 percent of those cases the corrections made by the clerks are rejected and the errors must be corrected again.

Despite costly efforts to overcome system inefficiencies, the system continues to operate inadequately as evidenced by the following incidents.

--During fiscal 1978, of the approximately 100,000 Navy military personnel separated, about 22,500 were underpaid and about 17,000 were overpaid. The total of the overpayments was about $4.2 million. According to the Navy Audit Service, the Navy

could not tell the members the cause of the overpayments 40 percent of the time. Once a member is separated it is difficult to recoup overpayments. In the past 3 years, the Navy has, on the average, collected only 23 cents for each dollar of overpayment.

--Navy members have been inconvenienced in preparing their income tax returns because about 78,000 Wage and Tax Statements (IRS W-2 forms) were incorrectly prepared for 1977 and 1978 and had to be corrected.

--The benefit of issuing the Leave and Earnings Statement is diminished. The statement given each month to members is usually wrong because the pay received does not agree with the pay calculated by the central system and shown on the statement.

As indicated above, the timeliness of input to the central computer would be greatly improved if the system were implemented as GAO approved. Field units average 12 days to prepare input as opposed to the 3 days required by the system design. Further, the approved system design required an automated control over rejects but since the automated system was not properly implemented, management does not rely on it for control purposes.

In addition, Navy management did not establish overall goals and objectives to measure pay system performance as required by the Office of the Assistant Secretary of Defense (Comptroller).

Although the Assistant Secretary of Defense (Comptroller) has the responsibility for ensuring that Defense has efficient and effective pay systems, his office did not provide the necessary guidance and monitoring of the Navy's pay system development and implementation. Also, the Comptroller's Office has not required the Navy to comply with Defense requirements for managing the automated pay system and has not determined whether the Navy implemented the pay system design as GAO approved.

Improvements underway and planned

The Navy recognizes that the present system is inadequate and has begun to reorganize its many field activities which provide pay data input to the central system. The reorganization, which the Navy hopes will result in prompt and accurate pay data, is scheduled for completion in December 1980.

Beginning in the Fall of 1981, the Navy is also planning to have its major installations in the continental United States send pay data to the Finance Center electronically rather than through the mail. This process will apply to only about 25 percent of pay system input, however, primarily because ships and overseas activities will not participate in this initial effort to reduce reliance on the mail system. A more sophisticated telecommunication system that is planned for implementation after 1984 will include an estimated 68 percent of pay system input. If properly implemented these steps will improve the promptness and accuracy of pay data.

Further, the Navy plans to reduce processing time of rejected data at the Finance Center. By March 1983 the Navy plans to use teleprocessing technology to reduce the processing time to correct errors from 6 to 8 workdays to 1 workday.

GAO MAY WITHDRAW ITS APPROVAL

The changes the Navy made in creating a parallel manual system would not have been approved by GAO if the changes were submitted to GAO as required. Further, the system is largely ineffective and inefficient because the Navy did not make sure that pay data was submitted promptly to the central site, as GAO urged when the system was approved.

The Navy's top management should make sure that planned improvements are effectively implemented and should require cognizant officials to operate the system as designed and as approved by GAO. GAO will consider withdrawing its approval of the pay system

unless the Secretary of the Navy acts promptly to implement the system as approved by GAO.

RECOMMENDATIONS

The Secretary of Defense should require the Secretary of the Navy to:

--Require commanding officers, disbursing officers, and administrative officers to operate the pay system as designed and as approved by GAO. In this connection, target dates should be established for reducing the extent of manual effort now required to make the system work. As the automated system becomes more effective, reliance upon the manual system should be considerably reduced thereby eliminating the parallel manual system.

--Identify those organizations which submit untimely and erroneous pay data and take corrective action where indicated.

--Expedite the Navy's plans to transmit input data to the Finance Center electronically rather than by mail.

--Establish measurable goals and objectives for improving the timeliness and accuracy of the pay system.

GAO made several other recommendations which are designed to make the pay system more effective and efficient. (See pp. 23 and 27.)

AGENCY COMMENTS

The Department of Defense advised GAO that it concurs with the intent of the report's recommendations but that it disagrees with GAO's findings that the pay system is not being operated as designed. Defense also said that (1) the report seems to imply that the Navy has done little or nothing to improve the system and (2) GAO should have evaluated the Navy's actions to correct the system's deficiencies. These actions are intended to enhance the approved system's design. (See p. 23.)

GAO recognizes in this report that the Navy plans to make major systems improvements and believes that if these changes are properly implemented, they will increase the timeliness and accuracy of pay data. (See pp. 9, 11, and 12.) Defense is in error in insisting that the Navy had implemented the system design as approved by GAO. As noted above, substantial improvements could be made if the approved system were properly implemented. (See pp. 9 and 14-17.)

Contents

		Page
DIGEST		i
CHAPTER		
1	INTRODUCTION	1
	We approved system design	2
	Objective, scope, and methodology	3
2	THE NAVY'S COMPUTERIZED PAY SYSTEM IS UNRELIABLE AND INEFFICIENT	5
	Records contain erroneous data	6
	Late input causes a major problem	9
	Inaccurate data causes several problems	16
	Reports to appropriations manager have improved	21
	We may withdraw our approval	21
	Conclusions	22
	Recommendations	23
	Agency comments	23
3	OVERALL MANAGEMENT OF NAVY'S PAY SYSTEM NEEDS IMPROVEMENT	26
	Failure to comply with Defense Instruction	26
	Recommendations	27
	Agency comments	28
APPENDIX		
I	June 5, 1980, letter from the Principal Deputy Assistant Secretary of Defense (Comptroller)	29